



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427


WENDY L. WATANABE  
AUDITOR-CONTROLLER

MARIA M. OMS  
CHIEF DEPUTY

ADDRESS ALL CORRESPONDENCE TO:  
AUDIT DIVISION  
350 S. FIGUEROA ST., 8<sup>TH</sup> FLOOR  
LOS ANGELES, CA 90071

March 4, 2011

TO: Santos H. Kreimann, Director  
Department of Beaches and Harbors

FROM: Jim Schneiderman, Chief  
Audit Division 

SUBJECT: **REVIEW OF GROSS RECEIPTS REVENUE FOR THE MARINA  
INTERNATIONAL HOTEL AND BUNGALOWS - PARCEL 145**

At your request, we reviewed the gross receipts reported by Marina International Hotel and Bungalows (Marina International or Hotel), Parcel 145, from August 1, 2003 to the Hotel sale date, May 19, 2006. We compared the gross receipts reported by the Hotel to the Hotel's accounting records and other documents to determine if the Hotel accurately reported their gross receipts and paid the correct percentage rent to the County.

The issuance of our report was delayed in part because the lessee from our audit period sold the Hotel to another party. This change made it difficult to get information from the prior lessee and the Hotel's prior management took approximately eight months to respond to our draft report. Our completion of the report was also delayed by other, higher priority assignments.

Our review disclosed that, while the Hotel underreported its gross receipts by approximately \$366,000, the underreporting was offset by a number of adjustments and credits due to the Hotel. As a result, the Hotel overpaid the County \$10,298 in percentage rent.

As noted on the Attachment, approximately \$270,000 of the underreported gross receipts was due to the Hotel underreporting its revenue for rooms occupied by the Hotel's owner and staff.

- The Hotel's owner occupied and permanently reserved a room for his personal use for the entire review period. Although the daily rate for this room was \$300,

the Hotel paid percentage rent on a daily rate of \$150 for 18 months, and did not pay any percentage rent on this room for 12 months. As a result, the Hotel underreported its room revenue by approximately \$193,000.

- The Hotel's Chief Financial Officer (CFO) occupied a room for the majority of the review period. However, the Hotel did not pay percentage rent for the CFO's room. The daily room rate was \$89, resulting in underreported room revenue of approximately \$77,000.

Based on the lease's percentage rent of 7.5% for hotel rooms, the Hotel underpaid its percentage rent by approximately \$22,600, including interest on the underpayment. However, as previously mentioned, the underpayment was offset by adjustments and credits due to the Hotel, primarily a \$32,702 annualization credit for the Hotel's rental payments exceeding the percentage rent due. In total, the Hotel overpaid the County \$10,298. The Department of Beaches and Harbors (DBH) should reimburse the Hotel for the overpayment.

Detailed schedules of our calculations of underreported gross receipts and percentage rent, resulting in a credit due to the Hotel were provided to and approved by your staff.

### **Review of Report**

Overall, Hotel management was cooperative and provided assistance during our review. On June 21, 2010, we discussed our report with Marina del Rey management. Hotel management disagreed with the amount due related to the CFO's room occupancy.

We discussed Hotel management's concerns with DBH and County Counsel. DBH and County Counsel agreed with our findings and the ending credit due to the Hotel. DBH will work with the Hotel to reimburse the credit due.

Please call me if you have any questions, or your staff may contact Michelle Romero at (213) 253-0154.

WLW:MMO:JLS

Attachment

c: Wendy L. Watanabe, Auditor-Controller  
Haroon Khan, Al-Anwa Investment Holding Co.  
Thomas Faughnan, Principal Deputy County Counsel, County Counsel  
Audit Committee

**MARINA INTERNATIONAL HOTEL AND BUNGALOWS**  
**SCHEDULE OF GROSS RECEIPTS**  
August 1, 2003 through May 19, 2006

	Lease Rent Percent Rate	Gross Receipts Reported by Hotel	Audited Gross Receipts	Gross Receipts Under/(Over) Reported	Rent / (Credit) Due
<b><u>Lessee: Marina International</u></b>					
Dry Storage	10.0%	\$ -	\$ 3,788	\$ 3,788	379
Hotel/Motel Rooms	7.5%	5,865,155	5,865,109	(46)	(4)
Forfeit Deposit/No show revenue	7.5%	10,851	11,878	1,027	77
Meeting Rooms	7.5%	133,148	133,149	1	0
Office Rentals	7.5%	4,550	4,550	-	-
Commissions- Telephone Service Charge <sup>(1)</sup>	5.0%	31,913	55,166	23,253	1,162
Commissions- Laundry & Dry Cleaning <sup>(2)</sup>	5.0%	3,619	3,897	278	14
Commissions- Service Enterprise- Movie <sup>(3)</sup>	5.0%	4,924	49,230	44,306	2,215
Commissions- Service Enterprise- Cab	20.0%	15,500	15,500	-	-
Commissions on Audio Visual Lazerteck <sup>(4)</sup>	20.0%	855	-	(855)	(171)
Commissions Service Enterprise- VIP Tour	20.0%	19,062	19,063	1	0
Audio Video Equipment Rental <sup>(3)</sup>	5.0%	150	14,444	14,294	715
Telephone/Vending Commissions	25.0%	1,833	932	(901)	(225)
Telephone/Vending Gross Receipts	5.0%	15,030	6,061	(8,969)	(449)
Bar/Cocktail Lounge	10.0%	135,189	135,103	(86)	(9)
Crystal Fountain	3.5%	304,690	304,273	(417)	(15)
Banquet/Catering	3.5%	92,281	92,280	(1)	(0)
Banquet Misc.	3.5%	7,683	6,445	(1,238)	(43)
Restaurant Beverage	3.5%	38,916	42,903	3,987	140
Banquet Beverage	3.5%	7,871	7,914	43	1
Audio Visual Equipment Rental <sup>(4)</sup>	3.5%	9,577	-	(9,577)	(335)
Banquet Service Charge	3.5%	27,171	27,172	1	0
Room Service	3.5%	36,660	36,689	29	1
Room Service Beverage	3.5%	4,305	4,494	189	7
Miscellaneous Sales	2.0%	36,264	31,504	(4,760)	(95)
<b>Subtotal Gross Receipts</b>		<b>\$ 6,807,197</b>	<b>\$ 6,871,544</b>	<b>\$ 64,347</b>	<b>\$ 3,365</b>
<b><u>Sublessee</u></b>					
Retail Sales (Gift Shop) <sup>(5)</sup>	2.0%	\$ 20,658	\$ 52,506	\$ 31,848	\$ 637
Interest Calculated at 10% Per Annum					9
Payment Adjustment <sup>(6)</sup>					(435)
Payment Error Credit					2
<b>Subtotal Sublessee</b>		<b>\$ 20,658</b>	<b>\$ 52,506</b>	<b>\$ 31,848</b>	<b>\$ 213</b>
<b><u>Owner/Staff Room Occupancy</u></b>					
Hotel/Motel Rooms <sup>(7)</sup>	7.5%	\$ -	\$ -	\$ 270,180	\$ 20,264
Interest Calculated at 10% Per Annum					2,336
<b>Subtotal for Owner/Staff Room Occupancy</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 270,180</b>	<b>\$ 22,600</b>
<b><u>Payment Errors and Other Adjustments</u></b>					
Payment Errors <sup>(8)</sup>					(460)
Minimum Rent Adjustment <sup>(9)</sup>					(3,314)
Annualization Credit <sup>(10)</sup>					(32,702)
<b>Subtotal Payment Errors/Adjustments</b>					<b>\$ (36,476)</b>
<b>Total Credit Due</b>					<b>\$ (10,298)</b>

**MARINA INTERNATIONAL HOTEL AND BUNGALOWS**  
**FOOTNOTES TO SCHEDULE OF GROSS RECEIPTS**  
August 1, 2003 through May 19, 2006

- ① Marina International reported the incorrect Commission amount earned from Telephone Service Charges.
- ② Marina International reported the incorrect Commission amount earned from Laundry & Dry Cleaning.
- ③ Marina International incorrectly reported the net profits for this revenue category, instead of gross receipts as required.
- ④ Marina International incorrectly reported the net profits from audio visual charges, instead of gross receipts as required. In addition, the Hotel reported the amounts in the incorrect category.
- ⑤ Marina International was unable to provide the accounting records to verify gross receipts reported to the DBH for the entire audit period. As a result, we estimated the Gift Shop's gross receipts using the prior audited rent, adjusted by the Consumer Price Index.
- ⑥ Payment adjustment is due to reporting the greater of Office Rentals or Retail Sales as approved by DBH and as stated on Amendment No. 5 of the lease. Since the revenues for Retail Sales is higher, the percentage rent amount of \$435 paid on Office Rentals is credited.
- ⑦ Marina International underreported revenue for owner/staff occupancy of rooms. The Hotel owes DBH approximately \$22,600 in percentage rent, including interest for the rooms occupied by the Hotel's Owner and CFO.
- ⑧ Marina International made payment errors from applying the incorrect percentage rental rates throughout the audit period for movies, restaurant and banquet. We corrected the percentage rental rates in accordance with Amendment No. 5 and 7 of the lease agreement.
- ⑨ Minimum rent adjustment of \$3,314 includes a \$2,308 minimum rent credit because the May 2006 minimum rent payment was prorated to the Hotel sale date. In addition, a \$1,006 credit is due to the Lessee for a minimum rent overpayment during the prior audit.
- ⑩ The Annualization Credit is due when the rent payments actually made by the Lessee exceed the total percentage rentals when computed on an annual basis. For the audit period, the Lessee's rental payments exceeded the sum of the percentage rentals. As a result, the Lessee is owed a credit of \$32,702.